



**BAC 7710-FW-P**

## **POSTAL REGULATORY COMMISSION**

### **39 CFR part 3050**

**[Docket No. RM2020-7; Order No. 5478]**

### **Periodic Reporting**

**AGENCY:** Postal Regulatory Commission.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The Commission is acknowledging a recent filing requesting the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports (Proposal Two). This document informs the public of the filing, invites public comment, and takes other administrative steps.

**DATES:** *Comments are due:* May 22, 2020.

**ADDRESSES:** Submit comments electronically via the Commission's Filing

Online system at <http://www.prc.gov>. Those who cannot submit comments

electronically should contact the person identified in the **FOR FURTHER**

**INFORMATION CONTACT** section by telephone for advice on filing alternatives.

**FOR FURTHER INFORMATION CONTACT:** David A. Trissell, General Counsel, at 202-789-6820.

### **SUPPLEMENTARY INFORMATION:**

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## **I. Introduction**

On April 7, 2020, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.<sup>1</sup> The Petition identifies the proposed analytical changes filed in this docket as Proposal Two.

## **II. Proposal Two**

*Background.* The Postal Service currently calculates unit delivery costs by rate category to provide insight into the nature of those costs at a detailed level. Petition, Proposal Two at 1. A review of those costs revealed large differences between the street time unit delivery costs for flats in Flats Sequencing System (FSS) and non-FSS zones. *Id.* This gap was surprising because it did not exist for the marginal times on which the costs were based. *Id.*

The Postal Service states that upon investigation, it uncovered the source of the discrepancy between relative costs and volumes: volume proportions from the City Carrier Street Time Study (CCSTS) data collected in FY 2013, and used in the established model, do not match the current volume proportions. *Id.* at 2.

The shift in volume proportions has implications for calculated unit delivery costs because city carrier street time variabilities depend upon the volumes used to calculate them. *Id.* Failure to account for volume changes can lead to the

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), April 7, 2020 (Petition). The Petition was accompanied by a study supporting its proposal. See Professor Michael D. Bradley *A Methodology for Updating the City Carrier Regular Delivery Variabilities\**, April 7, 2020 (Bradley Report). The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Two. Notice of Filing of USPS-RM2020-7-1 and USPS-RM2020-7-NP1 and Application for Nonpublic Treatment, April 7, 2020.

calculation of inappropriate variabilities. *Id.* The Postal Service states that if a particular type of mail experiences a volume decline and the current variability calculation does not account for that decline, the volume variable cost for this type of mail will be higher than it should be, leading to high calculated unit costs. *Id.* at 2-3. The Postal Service explains that “[c]hanges in the relative volumes of letter and flat mail create the need for a process of updating the regular delivery activity cost pools.” *Id.* at 3.

*Proposal.* Proposal Two would “introduce a methodology for updating the delivery time variabilities for city carrier regular delivery time, so that they reflect changes in relative volumes.”<sup>2</sup> City carrier delivery activity cost pools are found by multiplying city carrier street time variabilities by accrued regular delivery time. *Id.* at 4. Each street time variability has three parts: the marginal time for the type of mail, the volume for the type of mail, and the total regular delivery time. *Id.* Any of the three parts can change when volume changes. *Id.* In updating variability, the approach underlying Proposal Two “allows for responses in all three parts due to a volume change.” *Id.*

The Postal Service states that while the mean volumes used to calculate regular delivery time elasticities are typically calculated directly from the FY 2013 CCSTS data, to facilitate an update of the calculated variabilities, it is possible to “derive the mean volumes as proportions of the total average letter and flat delivered volume.” *Id.* The Postal Service clarifies that letter and flat delivered volume is the sum of the volumes of four components (mail shapes) for which

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<sup>2</sup> *Id.* at 1. A “full discussion of the research supporting the proposal” is provided in the Bradley Report, attached to the Petition electronically as a separate PDF file. See *id.* at 3.

delivery variabilities are calculated: delivery point sequence (DPS) mail, cased mail, FSS mail, and sequenced mail. *Id.* at 3-5. Consequently, the average volume for any component can be calculated “by multiplying the component’s proportion of total letter and flat delivery volume by the overall average volume.” *Id.* at 4. The Postal Service asserts that its proposed version of the mean formulation “makes it easy to update the regular delivery time variabilities using more recent volume means...[which are]...calculated by forming the needed volume proportions with the more recent data, here the FY 2019 [City Carrier Cost System] volumes.”<sup>3</sup> The Postal Service states that “the proposed new methodology would be applied again each year to achieve annual updates.” *Id.* at 1.

*Impact.* To see if a recalculation of variabilities using current volumes mitigates the gap between FSS and non-FSS unit city carrier street time flats costs, the Postal Service compares these costs for FY 2019 using the old variabilities and the new variabilities. *Id.* at 6-7. It concludes that the updated variabilities reduce the gap between FSS and non-FSS unit street time costs for flats. *Id.* at 7. The reduction is in the range between 2.5 cents and 4.0 cents, depending on the mail category. *Id.* at 7-8.

The updated variabilities also result in some changes in the unit volume variable city carrier costs for nearly all products.<sup>4</sup> *Id.* at 8. For all but one

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<sup>3</sup> *Id.* at 5 (footnote omitted). In a footnote, the Postal Service explains that the regular delivery time equation includes volumes from customers’ receptacles, but that it lacks recent data that would permit it to update that volume. *Id.* n.1.

<sup>4</sup> These costs include both office and street time cost, as well as related indirect cost. *Id.* at 9.

domestic market dominant mail products, the change in unit volume variable costs is in the range between -0.9 cents and 0.2 cents. *Id.* at 10. The largest impact of Proposal Two on unit volume variable costs is observed for High Density and Saturation Flats/Parcels, which has the unit costs fall by 1.2 cents. *Id.* at 9-10. For domestic competitive mail products and services, Proposal Two results in a decrease of unit volume variable costs by 0.2 cents on average. *Id.* at 10.

### **III. Notice and Comment**

The Commission establishes Docket No. RM2020-7 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Two no later than May 22, 2020. Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

### **IV. Ordering Paragraphs**

*It is ordered:*

1. The Commission establishes Docket No. RM2020-7 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), filed April 7, 2020.

2. Comments by interested persons in this proceeding are due no later than May 22, 2020.<sup>5</sup>

3. Pursuant to 39 U.S.C. 505, the Commission appoints Lawrence Fenster to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this order in the *Federal Register*.

By the Commission.

**Erica A. Barker,**  
*Secretary.*

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<sup>5</sup> The Commission reminds interested persons that its revised and reorganized Rules of Practice and Procedure become effective April 20, 2020, and should be used in filings with the Commission after April 20, 2020. Beginning on that date, the rules will be available on the Commission's website. In the meantime, the new rules can be found in Order No. 5407, which was issued on January 16, 2020. Docket No. RM2019-13, Order Reorganizing Commission Regulations and Amending Rules of Practice, January 16, 2020 (Order No. 5407).

